Morning report

Thursday, 19 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,502	-0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,961	-1.1%	10 yr bond	98.88		0.00		90 day BBSW	0.01	0.00
Japan Nikkei	27,586	0.6%	3 yr bond	99.75		0.00		2 year bond	0.03	-0.01
China Shanghai	3,653	1.1%	3 mth bill rate	99.98		-0.01		3 year bond	0.22	-0.01
German DAX	15,966	0.3%	SPI 200	7,378.0		-49		3 year swap	0.39	0.00
UK FTSE100	7,169	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.14	0.00
Commodities (close & change)*			TWI	61.3	-	-	60.9	**United States**		
CRB Index	212.9	-1.3	AUD/USD	0.7255	0.7270	0.7229	0.7238	3-month T Bill	0.05	-0.01
Gold	1,787.82	1.6	AUD/JPY	79.50	79.78	79.25	79.48	2 year bond	0.22	0.00
Copper	9,233.50	-191.0	AUD/GBP	0.5280	0.5288	0.5257	0.5262	10 year bond	1.26	0.00
Oil (WTI)	65.46	-1.1	AUD/NZD	1.0488	1.0542	1.0452	1.0517	**Other (10 year yields)**		
Coal (thermal)	162.50	2.3	AUD/EUR	0.6195	0.6204	0.6173	0.6180	Germany	-0.48	-0.01
Coal (coking)	222.50	0.5	AUD/CNH	4.7103	4.7148	4.6895	4.6946	Japan	0.02	0.01
Iron Ore	142.20	-7.0	USD Index	93.1	93.3	93.0	93.2	UK	0.57	0.00

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: The minutes of the Federal Open Market Committee (FOMC) meeting showed the US central bank is leaning towards tapering bond purchases later this year. US equities slipped while US bond yields were unchanged. The AUD/USD declined to a fresh 8-month low.

Share Markets: US stocks slid after the minutes of the FOMC's meeting suggested they could start tapering asset purchases from later this year. The Dow and S&P 500 both declined 1.1%. The ASX 200 finished largely unchanged.

Interest Rates: The bond market had a muted reaction to the FOMC minutes. The US 10-year and 2-year bond yields finished unchanged at 1.26% and 0.22% respectively.

The Australian 10-year (futures) yield edged down 1 basis point to 1.13% while the 3-year futures yield ended unchanged at 0.26%

Foreign Exchange: The Australian dollar declined from 0.7255 to 0.7229 against the US dollar, marking a fresh 8-month low, before partly recovering to 0.7238. This followed a sharp decline in the previous session. The US dollar edged higher.

Commodities: The price of WTI crude oil declined after a surprise increase in US gasoline inventories that may weigh on fuel demand. Gold firmed, iron ore and copper declined.

COVID-19: NSW recorded 633 new cases yesterday. This was the highest number of daily infections on record in NSW. Elsewhere, the ACT recorded 22 new cases and Victoria 24.

The Pfizer vaccine has been made available for those aged 16–39 in NSW in local government areas of concern.

Australia: Wages growth remained subdued in the June quarter. Wages grew by 0.4% in the quarter to be 1.7% higher over the year. A tightening of the labour market and pockets of labour shortages failed to translate into a broad-based lift in wages growth.

The soggy nature of wages growth is more concentrated in the public sector. Public sector wages grew by 0.4% in the June quarter compared with 0.5% for the private sector. In annual terms, public-sector wages grew at their softest pace since 1997 at 1.3%.

Private sector wages growth appears to have turned a corner; annual growth lifted to 1.9% - the fastest in over a year. But some of this is driven by unwinding of wage reductions a year ago.

The rental, hiring & real estate sector recorded the fastest quarterly growth (0.6%). Quarterly growth was weakest in industries that included healthcare & social assistance and arts & recreation (0.1% each).

The ACT and Tasmania reported the strongest quarterly growth in wages of 0.6%. The NT and Victoria had the weakest quarterly growth rates of

0.1% and 0.3%, respectively.

Yesterday's data suggests that the labour market is not yet tight enough to produce wage pressures that are material enough to lift inflation into the RBA's inflation band of 2-3%. The current lockdowns across Australia mean the unemployment rate will temporarily rise, delaying a possible build up in wages pressure.

Separately, the six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, fell from 1.4% in June to 1.3% in July. While slightly lower than in June, the result still suggests that the economy will grow above trend over the next three to nine months.

Eurozone: Inflation was confirmed at 2.2% in the year to July, the fastest in almost three years, and above the European Central Bank's 2% target.

New Zealand: The Reserve Bank of New Zealand agreed to keep the Official Cash Rate (OCR) at 0.25% but continued to signal rate hikes in the future. This was consistent with our expectations, as stated in this report yesterday.

The decision to leave the OCR on hold was due a community outbreak of COVID-19 and a return to the strictest lockdown settings.

We have pencilled in an OCR hike for November. But at this early stage it's hard to give any clear guidance as to when the RBNZ might resume its previous course.

In other data, the producer price index rose by 2.6% in the June quarter, from 1.2% in the previous quarter. This was the largest increase in price since 2008. The most significant contribution to the index came from electricity and gas, which was up 17.0%.

United Kingdom: Inflation was unexpectedly unchanged in July. And the annual inflation rate slowed more than expected to 2.0% in July, from 2.5% in June, the first easing since February. But this is likely to be merely a blip. Inflation is likely to head back up towards 4% in coming months.

United States: The minutes from the July FOMC meeting showed that most members agreed the central bank should start slowing the pace of bond purchases later this year. However, some participants indicated a reduction would be more appropriate "early next year". The record shows they don't yet have agreement on the timing or pace of tapering. Participants assessed that enough progress had been made towards the inflation goal but there was further to go to reach their employment objective.

Views on inflation were split. Participants in favour of tapering sooner noted "recent high inflation readings could prove to be more persistent than they had anticipated". However, some members were worried inflation could go back into a downward drift if COVID-19 cases keep rising, potentially hitting economic growth.

Surging construction costs and rising home prices are constraining housing starts. Housing starts dropped 7.0% to an annual rate of 1.534 million units in July, after an upwardly revised rise of 3.5% in June. Homebuilding has struggled to gain traction since racing to a rate of 1.725 million units in March of this year, which was the highest since June 2006.

The report also showed a rebound in building permits; they jumped 2.6% in July after three straight monthly declines. However, the gain in permits was in the volatile multi-family home segment, which will do little to ease an acute housing shortage that is driving up prices.

Today's key data and events:

AU Labour Force Jul (11:30am)
  Employment Change exp 20k prev 29.1k
  Unemployment Rate exp 4.8% prev 4.9%
  Participation Rate exp 66.2 prev 66.2%

EZ ECB Current Account Jun prev €11.7bn

US Initial Jobless Claims w/e 14 Aug exp 364k prev 375k (10:30pm)

US Phil. Fed Index Aug exp 23.3 prev 21.9 (10:30pm)

US Leading Index Jul exp 0.7% prev 0.7% (12am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

Matthew Bunny, Economist

Ph: (02)-8254-0023

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Research Assistant (Secondment)
Sonali Patel
Sonali.patel@bankofmelbourne.com.au
(02) 8254 0030

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